

## The increasing irrelevance of trade diversion

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### Abstract

This paper is intended as a guide for policymakers considering new regional trade agreements. The data provided here show that less than 25% of the typical country's imports are potentially subject to trade diversion from new agreements (i.e. they come from countries outside of regional trading blocs and in industries with positive most-favored nation tariffs). Since this percentage is steadily declining with the increasing number of regional trade agreements and the falling level of tariffs, trade diversion is becoming increasingly irrelevant as a concern for new trade deals. The paper also estimates how each potential new bilateral free trade agreement would affect a country's imports and exports, as well as whether the increased imports would replace domestic production, imports from other RTA partners, or imports from non-RTA partners. In this way, the estimates are able to reveal which countries make the best partners for new regional trade agreements. Finally, the paper provides estimates of the trade effects for two regional agreements under negotiation: the Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership.

Keywords: trade creation, trade diversion, regionalism, regional trade agreements

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